

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

The City of Sterling Heights Housing Commission

**Financial Report
September 30, 2006**

The City of Sterling Heights Housing Commission

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Independent Auditor's Report

To the Members of The City of Sterling
Heights Housing Commission
City of Sterling Heights, Michigan

We have audited the accompanying basic financial statements of The City of Sterling Heights Housing Commission as of September 30, 2006 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of The City of Sterling Heights Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of The City of Sterling Heights Housing Commission as of September 30, 2006 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of The City of Sterling Heights Housing Commission taken as a whole. The accompanying financial data schedules included in the other supplemental information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Members of The City of Sterling
Heights Housing Commission
City of Sterling Heights, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2006 on our consideration of the City of Sterling Heights Housing Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 15, 2006

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis

The City of Sterling Heights Housing Commission's (SHHC) management's discussion and analysis (MD&A) is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SHHC's financial activities for the year, (c) identify changes in SHHC's financial position, and (d) identify individual program issues or concerns.

Our discussion and analysis of SHHC's financial performance provides an overview of SHHC's financial activities for the fiscal year ended September 30, 2006. Please read in conjunction with SHHC's financial statements.

Mission

SHHC was created on November 16, 1971 and, through its programs and partnerships, is committed to building better neighborhoods by providing housing opportunities for qualified individuals and families through creative and professional services in partnership with the greater community.

Financial Highlights

- SHHC's total assets exceeded its liabilities by \$4,644,940 at September 30, 2006. This is a decrease of \$96,715 from the previous year as a result of operations.
- Operating revenues increased by \$166,638 (18.7 percent) and were \$1,058,387 and \$891,749 for fiscal years 2006 and 2005, respectively.
- Operating expenses increased by \$26,717 (2.5 percent) and were \$1,107,364 and \$1,080,647 (including depreciation) for fiscal years 2006 and 2005, respectively.

The Commission's Funds

SHHC's financial statements utilize the Enterprise Funds method, on the full accrual basis of accounting. The enterprise method is similar to accounting used in the private sector. Many of the programs maintained by SHHC are required by the Department of Housing and Urban Development (HUD). Others are segregated to enhance accountability and control. Major programs are as follows:

Low-income Public Housing Program - Under this program, SHHC rents units at Schoenherr Towers, which is the apartment building it owns, to low-income households. This program is operated under the annual contributions contract (ACC) with HUD, and HUD provides operating subsidies to enable SHHC to provide the housing at a cost that is based upon 30 percent of household income. SHHC currently owns and operates 152 units in this program.

Section 8 Program - Within the Section 8 Program, SHHC administers contracts with independent landlords that own and lease units within our community. SHHC subsidizes the family's rent through a housing assistance payment (HAP) made to the landlord. These programs are operated under annual contributions contracts (ACC) with HUD, which enables SHHC to structure a lease that sets the participants' housing costs at 30 percent of household income. SHHC currently administers 36 housing choice vouchers.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The Commission's Financial Statements

SHHC's basic financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire commission. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), formerly called capital contributions; restricted net assets; and unrestricted net assets.

Our commission-wide financial statements also include a statement of revenue, expenses, and changes in net assets (similar to an income statement). This statement includes operating revenues such as rental income, operating expenses, such as administrative, utilities, and maintenance, and nonoperating revenues and expenses such as capital grant revenue and investment income. The focus of this statement is the change in net assets, which is similar to net income or loss. Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, capital and related financing activities, and investing activities.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Fiscal Year		
	2006	2005	Change
Assets			
Current and other assets	\$ 1,049,752	\$ 976,994	\$ 72,758
Noncurrent assets	<u>3,801,994</u>	<u>3,900,132</u>	<u>(98,138)</u>
Total assets	4,851,746	4,877,126	(25,380)
Liabilities - Current and other liabilities	<u>206,806</u>	<u>135,470</u>	<u>71,336</u>
Net Assets			
Invested in capital assets	3,801,994	3,900,132	(98,138)
Unrestricted	<u>842,946</u>	<u>841,524</u>	<u>1,422</u>
Total net assets	<u>\$ 4,644,940</u>	<u>\$ 4,741,656</u>	<u>\$ (96,716)</u>

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

Major Factors Affecting the Statement of Net Assets

Net assets decreased \$96,716. SHHC's plan is to cover only cash operating expenses on a year-to-year basis and not all expenses recognized for accounting purposes. Accordingly, revenues were sufficient to increase the unrestricted portion of net assets by \$1,422.

Please refer to the full financial statements for more detailed information on these accounts.

The following table shows the changes in net assets during the current year:

	Fiscal Year		Change
	2006	2005	
Revenue			
Tenant rent	\$ 409,947	\$ 406,704	\$ 3,243
Federal sources	630,452	465,361	165,091
Miscellaneous	17,988	19,684	(1,696)
Interest revenue (nonoperating)	2,175	5,996	(3,821)
Total revenue	1,060,562	897,745	162,817
Expenses			
Low-income public housing	569,333	546,831	22,502
Section 8 Programs	230,329	233,471	(3,142)
Non-HUD/Other business activities	307,702	300,345	7,357
Loss on sale of assets (nonoperating)	49,914	-	49,914
Total expenses	1,157,278	1,080,647	76,630
Change in Net Assets	\$ (96,716)	\$ (182,902)	\$ 86,186

Major Factors Affecting the Statement of Revenue, Expenses, and Changes in Net Assets

Total revenues increased by \$162,817. This net increase is mostly a result of HUD subsidies increasing by \$165,091. The HUD subsidies are determined based on the needs of the individual tenants receiving assistance and capital improvement needs of buildings.

Total expenses increased \$76,630. Most expenses rose as a result of normal inflationary increases. However, repairs and maintenance rose by approximately 18.5 percent, and a current year loss on sale of assets of approximately \$50,000 occurred.

Please refer to the full financial statements for more detailed information on these accounts.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The following table shows net assets invested in capital assets during the current year:

	Fiscal Year		Change
	2006	2005	
Land	\$ 300,000	\$ 300,000	\$ -
Buildings	7,461,539	7,507,143	(45,604)
Equipment	834,977	717,010	117,967
Construction in progress	1,443	-	1,443
Accumulated depreciation	(4,795,965)	(4,624,021)	(171,944)
Total net assets invested in capital assets	<u>\$ 3,801,994</u>	<u>\$ 3,900,132</u>	<u>\$ (98,138)</u>

During fiscal year 2006, the change in capital assets amounted to a decrease of \$98,138. The above table represents the changes in the asset accounts by category as follows:

- Equipment increased by \$117,967 as the result of upgrading certain outdated equipment.
- The accumulated depreciation increased by \$171,944. The increase is current year depreciation expense less accumulated depreciation on disposal of assets.

Contacting SHHC's Management

This financial report is designed to provide a general overview of SHHC's finances and to show SHHC's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact SHHC's office.

The City of Sterling Heights Housing Commission

Statement of Net Assets September 30, 2006

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 717,288
Short-term investments (Note 2)	300,294
Accounts receivable	581
Due from other governmental units	<u>31,589</u>

Total current assets 1,049,752

Long-term assets - Capital assets - Net (Note 3) 3,801,994

Total assets 4,851,746

Liabilities

Accounts payable	79,859
Due to other governmental units	30,383
Accrued and other liabilities	<u>96,564</u>

Total liabilities 206,806

Net Assets

Invested in capital assets	3,801,994
Unrestricted net assets	<u>842,946</u>

Total net assets \$ 4,644,940

The City of Sterling Heights Housing Commission

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2006

Operating Revenue

Tenant rent	\$ 409,947
Federal sources	630,452
Miscellaneous	<u>17,988</u>

Total operating revenue 1,058,387

Operating Expenses

Salaries and wages:	
Office	93,155
Maintenance	60,864
Security	7,076
Management fees	40,392
Utilities	116,821
Repairs and maintenance	101,143
Professional fees	43,129
Taxes	42,297
Insurance	64,457
Section 8 programs	230,329
Depreciation	255,606
Miscellaneous	<u>52,096</u>

Total operating expenses 1,107,364

Operating Loss (48,977)

Nonoperating Revenue (Expense)

Interest	2,175
Loss on disposal of assets	<u>(49,914)</u>

Total nonoperating revenue (expense) (47,739)

Change in Net Assets (96,716)

Net Assets - Beginning of year 4,741,656

Net Assets - End of year \$ 4,644,940

The City of Sterling Heights Housing Commission

Statement of Cash Flows Year Ended September 30, 2006

Cash Flows from Operating Activities

Receipts from HUD operating subsidies and grants	\$ 631,226
Receipts from tenants	410,441
Other receipts	17,998
Payments for housing assistance	(237,402)
Payments for administrative expenses	(133,547)
Payment for other operating expenses	(145,044)
Payments for resident and other services	(217,964)
Other payments	<u>(52,096)</u>

Net cash provided by operating activities 273,612

Cash Flows from Capital and Related Financing Activities -

Acquisition of capital assets	(207,382)
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Cash Flows from Investing Activities

Interest received on investments	2,175
Purchase of investment securities	<u>(300,294)</u>

Net cash used in investing activities (298,119)

Net Decrease in Cash and Cash Equivalents (231,889)

Cash and Cash Equivalents - October 1, 2005 949,177

Cash and Cash Equivalents - September 30, 2006 \$ 717,288

The City of Sterling Heights Housing Commission

Statement of Cash Flows (Continued) Year Ended September 30, 2006

Reconciliation of Operating Loss to Net Cash from Operating

Activities

Operating loss	\$ (48,977)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	255,606
Changes in assets and liabilities:	
Due from other governmental units	(4,848)
Accounts receivable	495
Accounts payable	74,081
Due to other governmental units	(1,443)
Accrued and other liabilities	<u>(1,302)</u>

Net cash provided by operating activities **\$ 273,612**

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the year ended September 30, 2006.

The City of Sterling Heights Housing Commission

**Notes to Financial Statements
September 30, 2006**

Note I - Significant Accounting Policies

The financial statements of The City of Sterling Heights Housing Commission (the "Housing Commission") pertain to the financial activities of the Housing Commission as a separate entity.

The Housing Commission was created to account for the operations of Schoenherr Towers, the City of Sterling Heights' (the "City") senior citizen housing project for low-income citizens, and other housing-related city matters.

Reporting Entity - The Housing Commission is governed by a board of commissioners appointed by the Sterling Heights City Council. There are no component units to be included in these financial statements as defined by accounting principles generally accepted in the United States of America.

Basis of Accounting - The financial statements of the Housing Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Housing Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Housing Commission's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Commission uses a single Enterprise Fund to maintain its financial records on an accrual basis.

The Housing Commission considers all revenue and expenses to be operating, as required by HUD.

Cash Equivalents - For the purpose of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Investments - The Housing Commission's investments are recorded at fair value, based on quoted market prices.

The City of Sterling Heights Housing Commission

Notes to Financial Statements September 30, 2006

Note 1 - Significant Accounting Policies (Continued)

Capital Assets - Capital assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives ranging from 7 to 40 years. Capital assets are defined by the Housing Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Housing Commission has authorized multiple banks for the deposit of its funds. The Housing Commission follows Public Act 196 of 1997, which has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above as its investment policy. The Housing Commission's deposits and investment policies are in accordance with statutory authority.

The Housing Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Housing Commission's deposits may not be returned to it. The Housing Commission does not have a deposit policy for custodial credit risk. At year end, the Housing Commission had \$420,488 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Housing Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Housing Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City of Sterling Heights Housing Commission

Notes to Financial Statements September 30, 2006

Note 2 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Housing Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pools	\$294	AAA	Standard and Poor's

Note 3 - Capital Assets

Capital assets as of September 30, 2006 include the following:

	Balance October 1, 2005	Additions	Disposals and Adjustments	Balance September 30, 2006
Land	\$ 300,000	\$ -	\$ -	\$ 300,000
Buildings and improvements	7,507,143	40,695	86,299	7,461,539
Furniture and fixtures	717,010	165,244	47,277	834,977
Construction in progress	-	1,443	-	1,443
Total	8,524,153	207,382	133,576	8,597,959
Less accumulated depreciation	4,624,021	255,606	83,662	4,795,965
Net carrying amount	<u>\$ 3,900,132</u>	<u>\$ (48,224)</u>	<u>\$ 49,914</u>	<u>\$ 3,801,994</u>

Depreciation expense was \$255,606 for the year ended September 30, 2006.

Note 4 - Risk Management

The Housing Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Housing Commission has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

Other Supplemental Information

The City of Sterling Heights Housing Commission

Other Supplemental Information Financial Data Schedule - Balance Sheet September 30, 2006

	Housing Choice Vouchers	Low Rent Public Housing	Capital Funds Program Grant
Assets			
Current Assets			
Cash - Unrestricted	\$ -	\$ 717,288	\$ -
Accounts receivable - HUD other projects	-	581	-
Accounts receivable - Other government	24,459	7,130	-
Investments - Unrestricted	294	300,000	-
Total current assets	24,753	1,024,999	-
Noncurrent Assets			
Land	-	300,000	-
Buildings	-	7,461,539	174,548
Furniture, equipment, and machinery - Dwellings	-	660,429	-
Construction in progress	-	1,443	-
Accumulated depreciation	-	(4,785,297)	(10,668)
Total noncurrent assets	-	3,638,114	163,880
Total assets	<u>\$ 24,753</u>	<u>\$ 4,663,113</u>	<u>\$ 163,880</u>
Liabilities and Net Assets (Deficit)			
Current Liabilities			
Accounts payable less than 90 days	\$ -	\$ 79,859	\$ -
Accounts payable - Other government	30,383	-	-
Accrued liabilities - Other	-	96,564	-
Total current liabilities	30,383	176,423	-
Net Assets (Deficit)			
Invested in capital assets	-	3,638,114	163,880
Unrestricted net assets (deficit)	(5,630)	848,576	-
Total net assets	(5,630)	4,486,690	163,880
Total liabilities and net assets (deficit)	<u>\$ 24,753</u>	<u>\$ 4,663,113</u>	<u>\$ 163,880</u>

The City of Sterling Heights Housing Commission

Other Supplemental Information Financial Data Schedule

Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended September 30, 2006

	Housing Choice Vouchers	Low Rent Public Housing	Capital Funds Program Grant
Revenue			
Net tenant rental revenue	\$ -	\$ 409,947	\$ -
HUD PHA grants	233,836	205,353	180,922
Other federal grants	10,341	-	-
Misc. income	-	17,988	-
Investment income - Unrestricted	20	2,155	-
Total revenue	244,197	635,443	180,922
Expenses			
Administrative salaries	19,499	93,155	-
Auditing fees	-	10,000	-
Outside management fees	-	40,392	-
Other operating - Administrative	-	33,129	-
Utilities:			-
Water	-	15,620	-
Electricity	-	38,271	-
Gas	-	51,199	-
Other utilities expense	-	11,731	-
Ordinary maintenance and operation - Labor	-	60,864	-
Ordinary maintenance and operation - Materials and other	-	94,769	6,374
Protective services - Other	-	7,076	-
Insurance premiums	-	64,457	-
Other general expenses	-	45,521	-
Payments in lieu of taxes	-	29,373	-
Total expenses	19,499	595,557	6,374
Excess of Revenue Over Expenses	224,698	39,886	174,548
Other Expenses			
Depreciation expense	-	244,938	10,668
Housing assistance payments	230,328	-	-
Loss on disposal of assets	-	49,914	-
Total other expenses	230,328	294,852	10,668
Change in Net Assets	(5,630)	(254,966)	163,880
Net Assets - Beginning of year	-	4,741,656	-
Net Assets (Deficit) - End of year	<u><u>\$ (5,630)</u></u>	<u><u>\$ 4,486,690</u></u>	<u><u>\$ 163,880</u></u>

The City of Sterling Heights Housing Commission

**Federal Awards
Supplemental Information
September 30, 2006**

The City of Sterling Heights Housing Commission

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Independent Auditor's Report

To the Board of Commissioners
The City of Sterling Heights
Housing Commission

We have audited the financial statements that collectively comprise The City of Sterling Heights Housing Commission's basic financial statements for the year ended September 30, 2006 and have issued our report thereon dated November 15, 2006. Those basic financial statements are the responsibility of the management of The City of Sterling Heights Housing Commission. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The City of Sterling Heights Housing Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 15, 2006



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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Board of Commissioners
The City of Sterling Heights
Housing Commission

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of The City of Sterling Heights Housing Commission as of and for the year ended September 30, 2006, which collectively comprise The City of Sterling Heights Housing Commission's basic financial statements, and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The City of Sterling Heights Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The City of Sterling Heights Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Commissioners
The City of Sterling Heights
Housing Commission

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 15, 2006



Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133

To the Board of Commissioners
The City of Sterling Heights
Housing Commission

Compliance

We have audited the compliance of The City of Sterling Heights Housing Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2006. The major federal programs of The City of Sterling Heights Housing Commission are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The City of Sterling Heights Housing Commission's management. Our responsibility is to express an opinion on The City of Sterling Heights Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The City of Sterling Heights Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The City of Sterling Heights Housing Commission's compliance with those requirements.

In our opinion, The City of Sterling Heights Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

To the Board of Commissioners
The City of Sterling Heights
Housing Commission

Internal Control Over Compliance

The management of The City of Sterling Heights Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The City of Sterling Heights Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 15, 2006

The City of Sterling Heights Housing Commission

Schedule of Expenditures of Federal Awards Year Ended September 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant	Federal Expenditures
		Number	
U.S. Department of Housing and Urban Development:			
Performance Funding Operating Subsidy - Program			
Year - 2006 - MI-157-001-06D	14.850	N/A	\$ 205,353
Housing Assistance Payments Program - MI-157VO0006	14.871	N/A	233,836
Public Housing Capital Fund MI-28P157501-04	14.872	N/A	180,922
Passed through other local communities - Housing			
Assistance Payments Program - MI-157VO0006	14.871	N/A	<u>10,341</u>
Total federal awards			<u>\$ 630,452</u>

The City of Sterling Heights Housing Commission

Note to Schedule of Expenditures of Federal Awards Year Ended September 30, 2006

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The City of Sterling Heights Housing Commission and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Sterling Heights Housing Commission

Schedule of Findings and Questioned Costs Year Ended September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.871	Housing Assistance Payments Program
14.872	Public Housing Capital Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

The City of Sterling Heights Housing Commission

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2006

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

January 29, 2007

The Board of Commissioners
Sterling Heights Housing Commission
37500 Schoenherr
Sterling Heights, MI 48312

Dear Board of Commissioners:

We have recently completed the audit of the financial statements of the Sterling Heights Housing Commission (the "Housing Commission") for the year ended September 30, 2006. In addition to the audit report, we offer the following comments and recommendations for your consideration:

INVESTMENTS

Currently, the Housing Commission invests predominately in certificates of deposit and pooled investment funds. In addition, the Housing Commission has a significant amount of cash deposits in checking accounts at financial institutions that are non-interest bearing. Typically, the maturity on these investments is for a relatively short period of time. The Housing Commission should consider investing in other investment instruments allowable, as defined by state regulations, that earn more attractive rates of return while maintaining approximately the same degree of investment risk. Because of its excellent cash position, the Housing Commission should also consider investments with a longer maturity that could also increase investment yields.

Since there is generally, but not always, a correlation between investment yields and their degree of risk, the Housing Commission may more clearly define the level of risk that it believes to be appropriately acceptable through its election of investment vehicles. As a cautionary note, we would like to point out the need to consider the relative importance of arrangements regarding taking physical possession of securities and agreements related to safekeeping accounts and the policy regarding registration of securities in the Housing Commission name depending on the particular investment medium selected. In addition, we recommend that the Housing Commission adopt a formal investment policy. We would be happy to discuss these opportunities in more detail at your convenience.

We encourage the Housing Commission to explore investment opportunities available to governmental entities to see if investment earnings can be increased while maintaining an acceptable level of risk. We recommend that you review your entire investment strategy with your new property manager.

NEW AUDITING STANDARDS

The American Institute of Certified Public Accountants Audit Standards Board recently issued nine new Statements on Auditing Standards (SAS). The new auditing standards increase the level of documentation that is required to be obtained during our audits and modify the way we conduct our work. The new standards take effect over the next two years. The following is a summary of the new standards:

- **Statement on Auditing Standards 103 - Audit Documentation** - This standard is effective for the year ending September 2007 and clarifies and increases the requirements that auditors must follow in obtaining, managing, and retaining documentation that supports the audit opinion. It redefines the form, content, and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditor's report. The substantive implication of this new standard to the Commission is that we will be more specific in our requests for information and documentation.
- **Statement on Auditing Standards 112 - Communication of Internal Control Related Matters Noted in an Audit** - This standard is effective for the year ending September 2007 and establishes requirements for the auditor's communication responsibility to the Commission concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. This new audit standard lowers the threshold that is used to determine if a control deficiency must be reported to the Commission. The substantive implication of this new standard is that it is likely that we will be required to officially report on more internal control-related items than in the past.
- **Statement on Auditing Standards 104 to 111 - The Risk Assessment Standards** - These standards are effective for the year ending September 2008 and will substantially affect the auditing process by enhancing the auditor's application of audit risk assessment. The standards require auditors to perform the following:
 - Obtain a more in-depth understanding of the Commission and its internal control environment to identify the risks of material misstatement in the financial statements and what the Commission is doing to mitigate them
 - Perform a more rigorous assessment of the risks of material misstatement of the financial statements based on that understanding
 - Improve the linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks

At this point, the specific impact of these standards on commission audits is in the process of being evaluated and we will continue to keep you apprised of the status

CONCLUSION

We would like to thank the Board of Commissioners for the opportunity to serve as auditors for the City. We would also like to compliment Denice Gerstenberg and her staff for the excellent condition of the Housing Commission's financial records, and thank them for their assistance and cooperation during the audit. If you would like to discuss any of these matters further, or would like any other assistance, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Mark Hurst", with a stylized flourish extending from the end.

Mark R. Hurst



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

May 10, 2007

NOTICE OF DELINQUENCY

Office ID 4970-50-7-549

HOUSING COMMISSION

MAY 14 2007

Daniel Bishop, City Develop Dir/City Asst Manager
STERLING HEIGHTS CITY HOUSING COMMISSION
40555 Utica
Sterling Heights, MI 48311

RE: Audit Report for FYE 09/2006

Dear Daniel Bishop:

Michigan Compiled Law (MCL) 141.425 requires all local units of government with a population of 4,000 or more to file an annual audit of its financial records. Those with less than 4,000 in population are required to file biennially. MCL 141.427 states that the local unit must file within six months of its year end.

The Department of Treasury records indicate that we have not received the above referenced audit. The Department has the authority, under MCL 141.921, to withhold revenue sharing until such time it is filed. The Department may also perform the audit under the authority of MCL 141.426. To avoid either of these actions, please submit the audit within 30 days from the date of this letter to the address located at the bottom of this page or file it electronically (see Numbered Letter 2005-2 for instructions). A complete audit should include the following:

1. Auditing Procedures Report (Form 496) completed by your Certified Public Accountant;
2. Audit report;
3. Report of Comments and Recommendations (Management Letter).

If you have any questions or believe that you have received this request in error, please contact Cynthia Korienek at (517) 373-3512.

Sincerely,

Cary Jay Vaughn, CPA, CGFM
Audit Manager